

March 1982

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[REDACTED]

In October 1981 the participants in the OECD export credit arrangement modified their "Gentlemen's Agreement" on minimum interest rates, agreeing on a new, interim package to last for six months, beginning 16 November. Minimum officially supported export credit rates rose 2.25 to 2.5 percentage points within a matrix. They range from 10 to 11.25 percent for all currencies except yen, depending on the term of the credit and wealth of the importing country. The minimum rate for loans in yen is 9.25 percent. These changes reduce the degree of subsidization in the average government aided export finance transaction by 20 to 25 percent. [REDACTED]

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Aside from trying to reduce the advantage the Japanese enjoy due to low interest rates, the major stimulus behind the EC proposal was reducing the great cost of official export credit. What could not be accomplished through appeals to eliminate unfair subsidies and trade distortions is now being done in response to budgetary imperatives. However, the Europeans still do not share the US objective of eliminating subsidies. [REDACTED]

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The March 1982 meeting of the arrangement participants will review experience gained under the temporary guidelines, and will investigate measures to be taken before 16 May when the guidelines expire. Final agreement on a new arrangement will probably be reached in a session scheduled for 6 to 7 May. [REDACTED]

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The focus of negotiations leading up to the May deadline will be on developing guidelines that can be accepted for longer than six months. Increased durability may be obtained through a formula for periodic adjustment of minimum rates, probably based on SDR-weighted average market rates. The United States will continue trying to increase matrix rates, but the Europeans will probably not accept increases of more than 1 percent, and may prefer only fractional increases. [REDACTED]

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[redacted] Also likely to be sought are shorter periods of validity for prior commitments, more discipline and transparency on mixed credits, and improved controls on general aviation aircraft and nuclear power plant financing. [redacted]

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The agreement will also probably be modified by reclassification of recipient countries, possibly in line with a US-supported idea to adopt World Bank and IDA loan categories. This would indirectly achieve the objective of a January 1982 EC proposal to move the Soviet Union from category II to category I. Most of the non-NATO members of the OECD informally opposed the political nature of this step, noting that it would be inappropriate to use the OECD to apply political sanctions. They are, however, likely to accept a Soviet reclassification if the action is taken for economic reasons, such as a general revision of classifications. The small interest rate increase that would be imposed on the USSR by placing it in category I would cost it only roughly \$5 million a year based on 1981 lending. Of greater significance to export credit agencies would be savings that would be realized from moving newly industrializing countries (NICs) into category II. [redacted]

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A special part of GATT's future program, it was decided, would be further examination of the special trade problems of the developing countries. During 1979 the role of GATT's Committee on Trade and Development was strengthened in this area and an expanded work mandate was given. In addition, a special subcommittee was established to examine any instances of future protectionist trade actions taken by developed countries and affecting LDC exports.

The future work of GATT will also be a concern of the Consultative Group of Eighteen, a task force composed of high-level trade policymakers from member countries. Previously a provisional body, the Group was established in 1979 as a permanent body "to examine the question of structural adjustment and trade policy, and advise on GATT's future work on this matter of critical importance to trade relations between North and South". The Group will also examine one of the Tokyo Round's pieces of unfinished business—export controls.

The international safeguard agreement, the other major piece of unfinished business, was assigned to a newly created Safeguards Committee. Its task is to continue multilateral discussions on the establishment of a unified set of procedures whereby governments may restrict imports to protect domestic industries from injury.

Other developments. Throughout 1979 a Special Assistance Unit continued to operate within the GATT Secretariat to provide individual LDCs with a broad range of policy studies, technical analyses of tariff and trade data, and forecasts of the potential impact of various trade agreements on their economies. Meanwhile, the International Trade Centre continued to support LDC trade promotion efforts, technical cooperation valued at about \$13 million being provided during the year.

The Multifibre Arrangement (MFA), renewed for a second four-year period on January 1, 1978, continued to operate under the auspices of GATT. The objective of the Agreement is to set limits to annual increases in textile exports from the LDCs to the industrialized countries through a comprehensive series of bilateral agreements between exporting and importing countries. The 42 adherents (the European Community is considered a single signatory) of the MFA, who are members of GATT's Textile Committee, accounted for more than 80 percent of the \$57 billion worth of world trade in textiles and clothing registered in 1977.

In November 1979 the Philippines became the 85th Contracting Party, while Colombia, which had previously acceded provisionally, became the 86th in April 1980. During the latter month Mexico, on the other hand, which had engaged in negotiations preliminary to entry, decided not to become a GATT signatory.

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ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

*Organisation de Coopération
et de Développement Economique
(OCDE)*

Background. Established by a convention signed at Paris, France, on December 14, 1960, the OECD replaced the Organization for European Economic Cooperation (OEEC), whose original tasks—the administration of Marshall Plan aid and the cooperative effort for European recovery from World War II—had long been completed, though many of its activities had continued or been adjusted to meet the needs of sustained economic growth. OECD's expansion from a purely European grouping to embrace virtually all the economically advanced free-market states of the world occurred over a fairly lengthy period, the most recent member, New Zealand, being admitted in 1973. As of mid-1980 there were 24 full members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States. In addition, Yugoslavia and the Commission of the European Communities participate in OECD activities on a limited basis.

As the fulcrum for economic policy coordination among the advanced industrialized countries, the OECD continued to host a wide range of specialized discussions and negotiations during 1979-1980. Numerous ministerial-level meetings and specialized working groups, together with the OECD Secretariat's efforts, were utilized to advance the policy support function of the OECD organizational machinery.

Economic policy. The OECD committees with direct economic policy responsibilities concentrated their attention on two transcendent, interrelated problems: inflationary pressures and an international energy situation that deteriorated in the wake of the interruption of Iranian oil exports. At the annual ministerial-level meeting of the OECD Council (held in mid-June 1979) it was agreed, *inter alia*, that (1) "the demand management elements of the 1978 Concerted Action Program for macroeconomic policy coordination should be continued, with emphasis on an anti-inflationary 'cooling-off' period in the United States and a stable level of aggregate demand in the other OECD countries"; and that (2) "higher oil prices should be passed on in an appropriate manner to energy users . . . to encourage conservation and the development of alternative energy sources".

After reviewing international economic prospects at their June 1980 meeting, the OECD ministers concluded that their basic aim should be "to restore price stability and to promote in both the short- and the medium-term the conditions for investment-led and supply-oriented growth in output and employment". The final communiqué noted that despite the anticipated growth slowdown among OECD countries, their economic policy should continue to contain oil-induced inflation and protect the profitability of productive investment. Thus, "it would be a serious error

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to relax tight monetary and fiscal policies until the current surge in inflation has demonstrably been brought under control...."

The subministerial Economic Policy Committee (EPC) of the OECD met in May and November 1979. The first session helped prepare the June program of the Ministerial Meeting, and in particular focused on three issues: appropriate macroeconomic objectives for individual member countries, the macroeconomic implications of developments in the international oil markets, and potential national growth rates in the medium term. The November meeting considered the consistency of economic policy trends with the policy recommendations made at the June ministerial session. The Committee also paid special attention to the restrictive fiscal and monetary policies that had begun to materialize in the larger economies. In addition, the EPC discussed the report of its Ad Hoc Group on the Energy Situation.

Specialized examinations of economic policy issues continued to be undertaken by EPC working groups operating at the technical level. Working Party No. 2, whose mandate is Problems Concerning Economic Growth and the Allocation of National Resources, met three times in 1979 and looked primarily at short-term growth prospects in light of the constraint of anti-inflationary macroeconomic policies. The balance-of-payments adjustment process (by which disequilibrium countries move back towards equilibrium in their external accounts) and the means of improving it continued to be the basic issue dealt with by Working Party No. 3 on Policies for the Promotion of Better International Payments Equilibrium. Working Party No. 4 on Costs of Production and Prices continued its technical studies of the causes of inflation.

A Special Group on Positive Adjustment Policies was also created by the EPC. The Group was given a two-year work mandate to study the economic impact of domestic measures designed either to promote or to hinder structural adjustments in such key sectors as industry, agricultural, trade, and manpower.

The Economic Development and Review Committee analyzed economic conditions in all of the member countries and published each of these reports in the form of a detailed survey.

Special assistance to Turkey. In view of Turkey's deteriorating domestic and external economic positions, and subsequent to consultations with Turkish and IMF officials, an ad hoc "high level" OECD meeting was convened in May 1979. Sixteen OECD members pledged at this time a total of \$962 million in new grants, concessional development loans, and long-term export credits, while the reconvened foreign debt working party of the Turkish Aid Consortium agreed to reschedule approximately \$1 billion of Turkey's external debt and officially guaranteed export credits due for repayment in the July 1979-June 1980 period.

In April 1980 a second Turkish aid package of \$1.2 billion was approved at another extraordinary OECD meeting.

Trade policy. Although GATT serves as the principal global forum on commercial issues, the OECD in 1979-1980 continued to host trade policy discussions in

three areas of concern to the industrial countries.

The 1974 "Trade Pledge" was reaffirmed in both the 1979 and 1980 annual OECD ministerial meetings; the aim of the pledge is to formalize OECD governmental efforts to minimize trade protectionism, especially through unilateral import restrictions. An updated and expanded Declaration on Trade Policy was announced on June 4, 1980. The OECD ministers declared their determination to maintain the open multilateral trade system, strengthen trade relations with developing countries, and avoid restrictive measures that might impinge on productivity and growth potential.

The OECD has also served as the forum for efforts by member governments to set uniform terms and practices on the operations of official export credit programs—that is, to prevent an export subsidy race. In 1978 an informal "gentleman's agreement" was converted into a formal Arrangement on Guidelines for Officially Supported Export Credits. However, subsequent events brought to light a number of shortcomings in the Arrangement which a May 1980 revision sought to rectify. Signed by 22 of the OECD countries, the new agreement, effective July 1, 1980, called for an increase of the minimum rate to long-term borrowers in other industrial countries by 75 basis points, to 8.75 percent, and rates on loans to developing countries by 25 basis points, to 7.75 percent. Interest rates on loans of less than five years were raised to 8.5 percent and 7.5 percent to developed countries and LDCs, respectively. Participants also agreed to join in further negotiations directed toward bringing and maintaining interest rates on government-backed export credits in line with long-term bond rates, thereby largely eliminating the subsidy element in government export credits. A target date of December 1, 1980, was set for reaching such an agreement.

A final area of OECD economic policy action is the ongoing effort to coordinate the industrialized countries' positions on development and trade-related matters discussed in the North-South dialogue. Thus, the High Level Group on Commodities and the OECD Secretariat were active in preparations for the UNCTAD V meeting held in May 1979.

Cooperation in economic development. The Development Assistance Committee (DAC) maintained its supervisory role over OECD-based discussions of financial resource transfers to the LDCs. The annual review of individual DAC members' efforts and policies continued to be an important element in the work of the Committee. In addition to its usual consideration of aid volume, terms of performance, and the sectoral and geographic allocation of aid, the 1979 review paid particular attention to development assistance in the field of energy, the evaluation of aid effectiveness, and the measures taken to formulate a more integrated development cooperation policy.

Early in 1979 the DAC completed its work in preparation for the discussions on financial questions at the Fifth United Nations Conference on Trade and Development held in May of that year. The subjects receiving major attention encompassed official development assistance issues, debt problems of developing countries, resource transfers in general, and the problems of the least-developed countries.

After the Conference, the attention of the DAC reverted

to work on the New International Development Strategy for the 1980s, which was scheduled to become a major agenda item in future United Nations deliberations. Thus, the OECD Ministerial Meeting in June 1979 requested the DAC and other relevant OECD groups to conduct an in-depth review of the scope of improved financial cooperation with developing countries, with a view to contributing positively to the New International Development Strategy. A major part of this review related to nonconcessional resource flows: multilateral lending, direct foreign investment, export credits, and bank and bond lending.

The DAC has continued to keep under review its members' developmental assistance performance and their compliance with the DAC Terms Recommendation. DAC members as a group attained a record level of concessionality in their aid commitments in 1978 with a 90 percent grant element. With a few exceptions, individual members were in compliance with the Terms Recommendation and the subtarget of especially soft terms for the least-developed countries. In accord with the agreement at the UNCTAD Ministerial Meeting of March 1978, all DAC countries have undertaken to provide retroactive terms adjustment of their official loans to the least-developed (and some other poor) countries, or have taken equivalent measures. In effect, these loans were transformed into grants and further repayments were waived.

The debt position of developing countries, appropriate policies to avoid debt-servicing difficulties, and effective measures to provide debt relief in crisis cases have continued to engage the attention of DAC members, notably in connection with the international discussions at UNCTAD. The OECD Secretariat has supported this work by a 1979 study entitled "External Indebtedness of Developing Countries: Present Situations and Future Prospects".

Technical studies of specific developmental questions continued to be pursued by the OECD's Development Centre, while a Group on North-South Economic Issues was established by the Council in September 1979 to provide an in-house overview on major North-South concerns. It has worked closely with other OECD bodies, especially the Executive Committee and the DAC.

Financial and fiscal affairs. The first Review of the 1976 Declaration and Council Decisions on International Investment and Multinational Enterprises was prepared in early 1979 for examination by the Committee on International Investment and Multinational Enterprises (the IME Committee). The focus was on Guidelines for Multinational Enterprises, national treatment for firms under foreign control, and the use of incentives and disincentives to international investment. The Committee presented a report to the Council, evaluating in detail the experience obtained through the first three years of application, and submitted proposals to further improve the effectiveness of the exercise.

With regard to the OECD code for the liberalization of capital movements, a favorable trend was noted in member country policies. The most prominent example was the United Kingdom, which after progressively removing certain restrictions in June and July, completely abolished in October its system of exchange controls that had been in force for 40 years. In addition, Spain and New Zealand

took measures that partly eased restrictions on direct and portfolio investment abroad, in the first case, and direct foreign investment, in the second. Japan and Switzerland lifted restrictions on the purchase of certain securities by nonresidents.

The Committee on Financial Markets continued to provide a forum for member governments to follow current developments and assess prospects on international and national financial markets, in the overall context of general economic trends and balance-of-payments financing problems. This activity, which was backstopped by consultations with high-level representatives of leading international banking institutions, permitted member countries to consider in depth the approaches taken to deal with internal and external financial disturbances and to assure the smooth functioning of financial markets. The Secretariat's bulletin, *Financial Market Trends*, provided technical data for these discussions.

The Committee on Fiscal Affairs has continued to be the forum for senior tax officials to exchange views on the issues raised for tax policy by events taking place in member countries. In May 1979 the Council decided to publish the Committee's report on transfer pricing and multinational enterprises and recommend to the OECD governments that their tax administrations take its findings into account.

Other policy areas. A second meeting of the Environment Committee, held at the ministerial level, was the principal environmental policy development in 1979. Discussions at the meeting centered on a report on the State of the Environment in OECD Member Countries. A Declaration was passed on anticipatory environmental policies for the 1980s.

The Committee for Agriculture met at the ministerial level in March 1980. At that time, it continued its emphasis on studying the general orientation of food and agricultural policies, the improvement of the functioning of agricultural markets, and the special agricultural and food problems of the developing countries.

The work of the Education Committee and the Centre for Educational Research and Innovation, which place educational policy problems in the broader context of economic and social development, was adjusted in response to the priorities defined in the Declaration by Ministers at the first meeting of the Education Committee at the ministerial level in October 1978. The conclusions of the meeting were published under the title *Future Educational Policies in the Changing Social and Economic Context*.

Priority areas of concern to member countries in 1979 also included strengthened links between economic and employment policies, youth unemployment, the impact of collective bargaining on price/wage and employment developments, manpower adjustments to changing industrial structures, and more effective relationships between social and economic policy.

Publication of the "Interfutures" Project. The problems and prospects of long-term world economic growth were analyzed in a special report commissioned by the OECD members. The report by the Interfutures Project, an international research team, was released in July 1979 under the title *Facing the Future: Mastering the Probable*.

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and *Managing the Unpredictable*. The project focused on the longer-term problems to be faced by industrialized societies in their further internal development and in their economic relations with the LDCs.

INTERNATIONAL ENERGY AGENCY (IEA)

Background. The International Energy Agency is the vehicle for implementing the International Energy Program (IEP) established by 20 industrialized, oil-importing countries in November 1974, with operations commencing in January 1976. An autonomous body within the OECD framework, the IEA oversees programs dealing with such issues as energy conservation, development of alternative energy sources, and preparation for emergency shortages. Four OECD members—Finland, France, Iceland, and Portugal—who have not formally joined the Agency, as well as the Commission of the European Communities, may participate as observers.

Ministerial decisions. Agreement was reached at the May 1979 IEA Ministerial Meeting on the Principles of IEA Action on Coal. Broad guidelines for national policies were agreed upon to stimulate coal production and utilization. Subsequently, an IEA Coal Industry Advisory Board was established to improve government-private sector liaison and to facilitate implementation of the Principles.

In December the IEA ministers agreed on several programs designed to stabilize world oil markets in a period of rising price pressures. In the aftermath of decisions made at the June 1979 Tokyo Economic Summit Meeting, all IEA countries committed themselves to limit their respective oil imports in 1980 to specific ceilings and in 1985 to target import ceilings.

IEA Import Targets, 1980 and 1985
(Millions of tons)

	1980	1985
Australia	13.5	17.0
Austria	11.5	13.5
Belgium	30.0	31.0
Canada	7.4	29.4
Denmark	16.5	11.0
Germany, Fed. Rep. of	143.0	141.0
Greece	14.8	16.5
Ireland	6.5	8.0
Italy	103.5	124.0
Japan	265.3	308.7
Luxembourg	1.5	2.0
Netherlands	42.0	49.0
New Zealand	4.2	4.4
Norway	-15.5	-18.3
Spain	51.0	52.9
Sweden	29.9	29.0
Switzerland	14.0	14.5
Turkey	17.0	25.0
United Kingdom	12.0	-5.0
United States	437.2	436.0
IEA Total	1,205.3*	1,289.6**

*24.5 million barrels per day equivalent.

**26.2 million barrels per day equivalent.

Additionally, the ministers agreed upon a monitoring system to cover IEA members' energy policies and developments in the short, medium, and long term. To this end, the IEA Governing Board was charged with making quarterly reviews of the results achieved by each country in fulfilling its 1980 oil import ceiling commitment as well as its 1985 target ceiling. The Board was also to determine whether the specific measures in place in each country were adequate and were being effectively implemented, and whether additional programs would be necessary. Furthermore, the Ministerial Meeting produced agreements on the need to adopt improved information systems on international oil stock movements and on changing oil market conditions.

The May 1980 IEA ministerial-level meeting of the IEA surveyed the progress made in the implementation of these agreements and discussed the special 1978 review report on Energy Policies and Programmes of IEA Countries. The ministers agreed that insufficient action had been taken to conform with the IEA Principles for Energy Policy and discussed the Secretariat's analysis of areas where energy policy could be improved in each of the IEA member countries. In order to minimize the immediate effects of price or volume disruptions in the world oil market, additional short-term instruments were proposed to improve IEA preparedness. These included arrangements for "yardsticks and ceilings" to measure progress toward structural change and medium-term targets, improved coordination of oil stock management policies, and a mechanism for responding quickly to the need to reduce oil import ceilings in the event that "changing oil market conditions require their adjustment".

Emergency oil-sharing system. Refinements and improvements were made in the Emergency Oil Allocation System, and in-depth reviews were made of ten member countries' demand restraint mechanisms, to be implemented upon triggering of the System. The data system continues to be revised and refined to cope with changing oil market conditions.

In May 1979, Sweden requested the activation of the emergency allocation system in accordance with the IEP Agreement. However, after having examined the situation, the Secretariat concluded that the serious shortfall of oil supplies to Sweden during the first quarter of 1979 could not be expected to continue on a sustained basis.

Research and development. By the end of 1979, IEA countries were involved in 48 collaborative projects in an energy research, development, and demonstration program covering such areas as conservation, coal technology, enhanced oil recovery, nuclear energy, geothermal energy, solar energy, biomass conversion, ocean energy, wind energy, fusion energy, and hydrogen fuel. An International Energy Technology Group was established by the IEA Council in November 1979 to consider such technical questions as the means for accelerating the commercialization of the relatively capital-intensive new energy technologies.

Conservation. The second comprehensive review and analysis of energy-saving policies implemented in IEA countries was published in September 1979. The publication, *Energy Conservation*, described, quantified, and evaluated conservation programs in member states by sector